

In this week's recap: core inflation reaches a 10-year peak, oil's losing streak continues, earnings impress, and Wall Street indices have a mixed week.¹

Weekly Economic Update

Presented by Anthony E. Kalinowski CFP® President, August 13, 2018

INFLATION AT 2.9%, CORE INFLATION AT 2.4%

Friday, the Department of Labor reported these annualized gains through July of this year for the Consumer Price Index. Both the headline and core CPIs rose 0.2% last month, matching the consensus forecast of economists polled by Reuters. The yearly core inflation increase is the largest on record since September 2008. (The core inflation reading leaves out food and energy costs.) The Producer Price Index was flat in July, with the yearly advance declining slightly to 3.4%; the core PPI rose 0.3%, resulting in a 2.8% annualized gain.^{1,2}

HOW IS EARNINGS SEASON GOING?

Ninety-one percent of S&P 500 companies have reported Q2 results so far. FactSet, the respected stock market analytics firm, reports that 72% have surprised to the upside in terms of sales and 79% have topped earnings expectations. Weighing actual earnings results and future projections, FactSet estimates a 24.6% “blended” earnings growth rate for the second quarter. On Friday, the forward 12-month P/E ratio for the S&P 500 was 16.6; that compares to an average of 16.2 across the past five years.³

OIL FALLS FOR A SIXTH STRAIGHT WEEK

WTI crude last suffered such a losing streak in 2015. Friday, it settled at \$67.63 on the NYMEX, even after a 1.2% advance during Friday's trading session. Some commodities investors believe that the emerging trade war will reduce demand for energy products.⁴

NASDAQ ADVANCES, S&P AND DOW RETREAT

The possibility of the U.S. doubling tariffs on Turkish aluminum and steel sent stocks skidding worldwide, Friday, as diplomatic disagreements between the countries took on an economic aspect. Of the three major Wall Street indices, only the Nasdaq Composite posted a weekly gain,

rising 0.35% to 7,839.11. The S&P 500 fell 0.25% in five days, settling at 2,833.28 Friday. The Dow Jones Industrial Average ended the week 0.59% lower at 25,313.14.^{5,6}

TIP OF THE WEEK



*This year, the Internal Revenue Service eased the “use it or lose it” rule on **Flexible Spending Accounts (FSAs)**. In the past, funds you directed into an FSA had to be spent by the end of a year or else they would be forfeited. **The I.R.S. now permits you to carry over as much as \$500 in FSA funds into the next year, but your employer must elect to allow this option.***

THIS WEEK

Sysco announces Q2 results Monday. | Advance Auto Parts, Agilent Technologies, and Home Depot present earnings on Tuesday. | On Wednesday, July retail sales numbers are out, along with earnings from Briggs & Stratton and Cisco. | Nordstrom, Nvidia, and Walmart share quarterly results on Thursday, as Wall Street also considers new data on initial jobless claims and July homebuilding activity. | The University of Michigan’s initial August consumer sentiment index appears on Friday, plus the Conference Board’s latest leading indicators index and earnings from Deere & Co.

QUOTE OF THE WEEK



*“Do not accustom yourself to use big words for **little matters.**”*

SAMUEL JOHNSON

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	2.40	15.88	12.82	11.48
NASDAQ	13.55	26.09	22.84	22.13
S&P 500	5.97	16.20	13.50	11.71

REAL YIELD	8/10 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.78	0.40	0.33	1.80

Sources: wsj.com, bigcharts.com, treasury.gov - 8/10/18^{6,7,8,9}

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends.
10-year TIPS real yield = projected return at maturity given expected inflation.

THE WEEKLY RIDDLE



*A cargo truck hauling a load of lumber **can carry 2 tons**. It approaches a bridge with a sign, which notes that **the bridge can support up to 2 tons of weight**. The driver sees the sign and reckons that the bridge should hold up under the weight of the truck. Is the driver right?*

*LAST WEEK'S RIDDLE: Gary drops an egg onto a sidewalk. The egg doesn't break after falling 3 feet.
Why?*

ANSWER: The egg is dropped from a height of more than 3', so after 3' of falling, it has not yet broken.

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